

# Choosing Not to Borrow: An Evaluation of Perception and Sociocultural Factors Underlying Voluntary Self-Exclusion

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*The purpose of this study is to investigate the underlying sociocultural factors that drive the majority of microentrepreneurs to voluntarily exclude themselves from seeking external finance, despite complaints of severe financial constraints. Using structured questionnaire, data on some 176 microenterprises in Ashanti region of Ghana were collected. A simple conceptual framework was utilized to classify various forms of financially constrained and unconstrained microenterprises. A logistic regression technique was then applied to a utility function model of credit demand. The findings suggest that voluntary self-exclusion is not only driven by microenterprise or owner's socioeconomic status, but also most significantly by their perceived difficulties in accessing external finance and negative cultural-religious biases toward credit use or borrowing as well as financial illiteracy. The study further finds that most microentrepreneurs are interest inelastic or insensitive suggesting that they are more interested in easier and faster access to finance rather than the cost of borrowing. The evidence implies that policies directed at building all-inclusive financial system by focusing on supply side alone are unlikely to be successful. Complementary target policies that tackle the fundamental issues of negative perceptions and mistrusts on the financial institutions by creating awareness through extensive financial literacy programs and social mobilization would be a holistic approach in solving the problem. Besides, innovations in religion-compliant financial institutions should be promoted to meet the financing needs of those who exclude themselves because of religious beliefs.*

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## Introduction

There have been newfound interests in microenterprise financing to ensure their sustainability and growth, particularly because of the role the sector plays in poverty reduction through its income and employment generation effects.<sup>1</sup> However, despite wide-ranging efforts by governments and development agencies at building an all-inclusive financial system, access to finance in most developing countries, especially in Sub-Saharan Africa remains limited

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<sup>1</sup> In Ghana, for example, according to the latest round of Ghana Living Standard Survey Report (2008), 3,200,000 households representing 46% of all households in Ghana operate non-farm enterprises, most of which are micro in nature. This shows the important role played by household-based microenterprise in the economy.

(World Bank, 2008). Several previous studies (Aryeetey and Udry, 1997; Kimuyu and Omiti, 2000; Bigsten *et al.*, 2003; Ofei, 2004; and Abor, 2008) from Africa, on the subject have shown that mainstream formal financial institutions are reluctant to lend to micro and small enterprises largely because of high risk associated with the sector. Consequently, majority of the microenterprises (hereinafter referred to as MEs) are denied access because of their inability to present viable business plan and worthy collateral as well as high transaction and monitoring costs due to small borrowing and their widely dispersed nature. Similarly, Beck *et al.* (2007) contend that without broad access, financial market imperfections such as informational asymmetry, transaction cost and contract enforcement cost, which are associated with credit, are more binding on the poor households or small entrepreneurs, who lack collateral, credit histories and connections.

However, efforts at addressing access constraints have so far focussed more on the supply side with very little attention being paid to the demand side constraints. In as much as constraints emanating from the supply side are important, it should also be acknowledged that the problem of financial inclusion is a crucial issue of both demand and supply sides of finance and does not rest only with the supply side or financial institutions (Beck and Torre, 2006). There are demand deficiency problems, particularly when poor households or MEs, despite reporting of severe financial constraints, and sometimes even when having physical access to a bank, voluntarily exclude themselves or feel disinclined to borrow. Many MEs often cite finance as the most binding constraint, yet the majority make no effort to apply for loan (Bigsten *et al.*, 2003). In Ghana, although the financial sector has experienced tremendous growth and expansion in recent times, and banks are frequently rolling out varied products to attract the new and vast market of the 'unbanked' within the informal economy, the demand for external finance is just about 10%, according to the latest round of Ghana Living Standard Survey (GLSS 5), 2008. Out of this, less than 2 out of 10 actually borrow from banks. The rest (over 70%) borrow either from friends and relatives or other forms of informal financing sources. The fundamental question therefore is, what are the sociocultural factors that underlie voluntary self-exclusion by MEs from seeking external finance? In particular, does perception of access difficulties and attitude toward credit inherent in some cultural and religious beliefs drive self-exclusion?

There is a vast literature in economic sociology, social psychology and cultural anthropology that emphasizes the role of perception and sociocultural attitudes toward entrepreneurial behavior.<sup>2</sup> Perception—defined simply by Hema (2009) as an approximation of reality—of difficulties in accessing external finance has the potential of discouraging many MEs from demanding formal finance in particular. Although such perceived difficulties could be far from reality, the actions often taken by lenders to reduce information problems may exacerbate this perception of access difficulties. This may induce such potential micro-borrowers to voluntarily pull out from the credit market, despite having projects that are

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<sup>2</sup> The influence of culture on entrepreneurial behavior was first highlighted by Weber (1904). He argued that Protestantism encouraged a culture that emphasized individualism, justification of entrepreneurial vocations, and self-reliance among others.

viable when considered against the interest rate, or price of available loans (Guirking and Boucher, 2007). Wyer *et al.* (2007), providing insights into the Personal Construct Theory (PCT)<sup>3</sup> and entrepreneur's perception of access to finance difficulties, also argue that an entrepreneur may misrepresent a real phenomenon, such as barrier to accessing finance, and yet, his representation will itself be entirely real—"what they perceive may not exist, but their perception of it does". This notwithstanding, such perceived difficulties could exacerbate the risk aversion attitudes of most potential borrowers, especially if there is information gap where microentrepreneurs are not adequately informed or are misinformed (Ekumah and Essel, 2003).

From a sociocultural perspective, Gracia Clark, a famous African social anthropologist, who has done extensive study on the indigenous people of Ashanti in Ghana, emphasizes the importance of culture and the behavior of local traders. Clark (1994) suggests that traders in Kumasi Central Market in Ashanti contract loans outside the marketplace or 'secretly' because of the need to conceal it from the other traders at the market, in order to avoid shame and stigmatization. According to her, this is because loans are perceived to reflect a shaky financial condition and loss of control over one's business. Though in a different setting, a recent study by Ambreen (2009) also finds that social, religious and cultural norms are the major barriers impeding women from borrowing in Pakistan. Beck and Torre (2006), however, contend that it would be wrong to argue that voluntary self-exclusion constitutes a problem of access to finance, especially where lack of demand or need drives the non-use of financial services. According to them, it is however a problem if there are no suitable alternatives in hand or cases where self-exclusion mirrors unduly low levels of financial literacy or past systematic discrimination that begets a psychological response. Nevertheless, for most MEs their lack of demand may mean severe financing constraints that tend to stifle their businesses even though they may exhibit high potential for growth and profit viability. Yet, very little is known empirically of the underlying sociocultural factors that drive self-exclusion, especially in the Sub-Saharan Africa, although researchers often interpret their findings in relation to the views and attitudes held by entrepreneurs and the lenders (Wyer *et al.*, 2007).

The present study attempts to fill the void in the development finance literature by investigating the underlying factors that primarily drive voluntary self-exclusion. The study sheds light on the proposition that the decision to borrow or not is deeply rooted in the socio-psychological circumstances of the microentrepreneur and information structures available, which have the tendency of predicting his behavior regarding financing decisions. Our unique dataset also allows us to classify the various forms of financially constrained and unconstrained MEs. The rest of this study is structured as follows: it presents a conceptual framework for classification of constrained and unconstrained MEs and the development of the study hypotheses, followed by highlights of data sources and preliminary survey results. Subsequently, it presents econometric specification and discussion of the results, and finally offers conclusion.

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<sup>3</sup> Personal Construct Theory (PCT) is a theory of personality, developed by the American psychologist George Kelly in 1955. Kelly believed that anticipation and prediction are the main drivers of our mind. People develop constructs as internal ideas of reality in order to understand the world around them. They can be based on observations or experiences.

## Conceptual Framework: Toward Classifying Voluntarily Constrained MEs

The classification of which firm is credit constrained or unconstrained has, within the corporate finance literature, received numerous but diverse approaches. Kaplan and Zingales (2000), for example, classify firms without access to more funds than needed to finance their investment as likely constrained, whereas firms with access to more funds than needed to finance their investments as unconstrained. However, in their pioneering study on financial constraint, Fazzari *et al.* (1988) have characterized constrained and unconstrained firms based on firm's specific-level characteristics such as size or asset value. They simply reached an important conclusion that financially constrained firms have greater investment-cash flow sensitivity. However, it is difficult to use some of these classifications or benchmark definitions on the bottom end of firms as in MEs. Several of such above-mentioned studies invariably adopt complex financial modeling methodologies that can only be applied to stock listed or big corporate firms that have the ability to raise both equity and debt finance publicly.

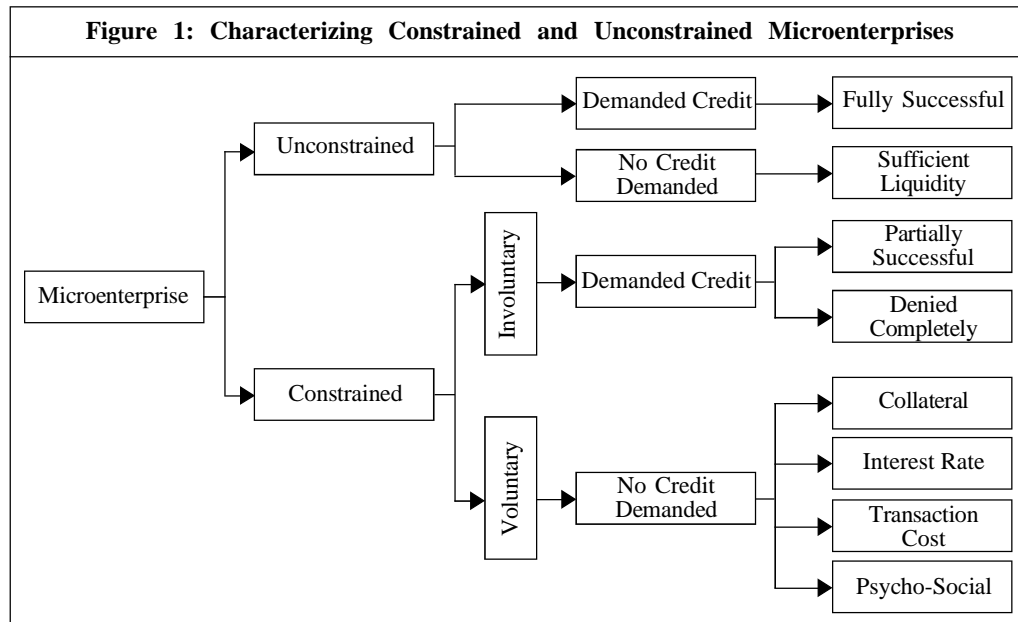
Within the emerging micro and small enterprise finance literature, although very little is known in this field, few available studies (Bigsten *et al.*, 2003; Ofei, 2004; and Guirking and Boucher, 2007) have placed their classifications of constrained and unconstrained MEs within the basic theory of information asymmetry and credit rationing. For example, Guirking and Boucher (2007) define credit constrained as, "those individuals that would participate in the credit market in a first-best world but withdraw from the credit market as a result of asymmetric information". According to this study, credit constrained is either quantity rationed individuals who withdraw involuntarily because their demand for credit exceeds what lenders can offer, or transaction cost and risk rationed individuals who, although have the opportunity to borrow, voluntarily withdraw taking into account the interest rate to be paid and the non-interest costs, and they must raise their expected returns or utility more than they can possibly achieve. Bigsten *et al.* (2003) on the other hand, simply classify enterprise as constrained, if its loan application was denied or because of fear of being refused, did not apply at all. On the other hand, they define enterprise as unconstrained within the credit market, if they were able to access loan or did not apply because they have no need for it.

These classifications, no doubt, give credence to the assertion that there is an important distinction between having access to and use of financial services. In essence, access refers to the supply of financial services, while use is driven by demand as well as supply (World Bank, 2008). Beck and Torre (2006) point out that, on the demand side, entrepreneurs might have no impediment to access financial services, but may simply not want to use them. Distinguishing between use and non-use, the study contends that non-use or exclusion could either be involuntary, if it emanates from the supply side or voluntary, if it emanates from the demand side. Involuntarily exclusion often occurs when financial institutions in their bid to mitigate against default risk probabilities deny or ration credits. These actions are often based on discrimination due to perceived high risk, unsuitable loan size/product features, high interest charges and collateral requirements as well as certain contractual and information

framework that increase the transaction cost of delivery (World Bank, 2008). According to a seminal work by Stiglitz and Weiss (1981), such rejections or rationings are necessary in a world of imperfect and costly information in order to overcome inherent agency problems such as adverse selection and moral hazards.

The greater concern however is on the demand side. These are non-users who voluntarily exclude themselves from the credit market not because they have sufficient liquidity to run their business, but due to varied socioeconomic and religious reasons. Arguing from the economic viewpoint, Bigsten *et al.* (2003) point out that entrepreneur may prefer external funds to internal funds but would not apply for loans for the reason that collateral requirements are not met or the success rate of applications is less than one, and/or the costs associated with loan applications (transactions costs) are too high. However Glackin (2002), exploring a framework for ‘what does it takes to borrow’ by micro-borrowers in the US, argues that the cost to the micro-borrower is not simply the interest rate plus fees or collateral, although that is the most explicit portion of the costs. Microloan costs include financial costs, transaction costs, and psychosocial costs. He particularly argues that while the other factors are inherent challenges in determining credit constraints, certain psycho-sociological burdens and cost such as stigma, loss of privacy, risk aversion and frustration are critical and should be recognized due to their potential to prevent borrowing. On the other hand, World Bank (2008) observes that these non-users or voluntary self-exclusionists may not borrow due to cultural or religious reasons or because they do not need it. From the foregoing review, it is clear that there are various forms of access to finance constraints among microentrepreneurs that need clear distinctions.

Building on these earlier studies and using ‘self-elicitation’ responses from microentrepreneurs, we explain and summarize these distinctions or classifications in a simple conceptual framework (Figure 1). The framework begins by first classifying the unconstrained MEs.



We define being credit unconstrained within this framework as ME, which has the ability to obtain external finance or is able to generate funds internally to meet its cash flow problems or invest in physical capital. These are those microentrepreneurs who applied for loan and were successful or those who did not apply because they did not need it or have enough liquidity.

On the contrary, access constrained MEs are first classified into two groups—voluntary and involuntary. Beginning with involuntarily constrained microentrepreneurs, they are those, who even though applied for credit, their credit demands were either denied completely or were granted, but partially, i.e., receiving only a portion of the loan amount requested. On the other hand, voluntarily constrained microentrepreneurs are those, who even though report of severe credit constraints, do not even attempt to apply for external funds or feel disinclined to do so for various reasons. The following are several different constraints or barriers that could be used to classify the voluntarily excluded MEs based on the reasons they are more likely to cite for not applying for credit:

- Collateral Constrained: This is when MEs stay away from applying or borrowing due to a poor collateral quality or believe that their collateral positions do not match to what is required by the lenders. Even if they can pledge collateral, some do not want to tie up resources since that imposes an opportunity cost for not being able to use it for another purpose (Glackin, 2002). Others stay out because of the difficulty in getting a third party or cosigner to guarantee the loan facility.
- Interest Rate Constrained: This is when MEs feel a need for external credit, but will not borrow because their perceptions of the costs of borrowing far outweigh the expected receipts. In other words, if investment profitability is projected to be too low to match the interest rates on loans, it may reduce MEs propensity to demand for external borrowing (Bigsten *et al.*, 2003).
- Transaction Cost Constrained: Often in addition to high application costs, there is a group who would not apply merely because of absence of a delivering point or the cost involved in travelling to the nearby bank and/or the time to be spend in filling complex application forms, and preparing such documents as business plan or balance sheet.
- Psycho-Social Constrained: These are demand reducing social institutional reasons ranging from illiteracy, culture and misinformation to religion. For example, excuses such as ‘not knowing where exactly to go’; ‘do not understand financial sophistication’; do not want third-party intrusion (Abor, 2008); fear of risk or specifically, do not want to forfeit collateral in an event of default, ‘I am already heavily indebted’; fear of rejection or do not expect to be successful because some colleagues tried in the past and were rejected and some, simply ‘abhor the attitude of bank officials’ (Ofei, 2004), are more likely to be cited.

Beyond the preceding excuses, issues of how perception of access difficulties, the extent of one’s belief in culture or religious values relate to the use of credit, and sensitivity to interest payments as well as information gap driven voluntary self-exclusion have not been

explicitly addressed in the literature and thus need an empirical validation. The following subsection focuses on these key factors in explaining voluntarily constrained MEs.

## **Hypotheses Development**

### ***Perception of Access Difficulty and Voluntarily Constrained MEs***

Guided by the key premise of the PCT to explain the nature of entrepreneurs' perceptions toward difficulties in accessing finance, Wyer *et al.* (2007) argue that when attempting to assess the impact of entrepreneurs' perceived difficulties in accessing finance, it is appropriate to proceed on the basis in which an individual may be adjusting his personal construct and, thus his perceptions, beliefs and expectations may reflect the way he reacts in the face of new experiences. This simply suggests that those individuals tend to act in a similar fashion as their preconceived mind, and may feel disinclined to borrow based probably on perception of difficulty or mistrust of financial institutions. Maurice and Colin (2002) contend that this problem stems from the fact that humans are unable to understand new information, without the inherent bias of their previous knowledge. According to them, "a person's knowledge creates his or her reality as much as the truth, because the human mind can only contemplate that to which it has been exposed". In the above light, we hypothesize that:

*H<sub>1</sub>: Microentrepreneurs who still perceive difficulties in accessing external finance, despite the current cutthroat competition in the financial sector coupled with the immense efforts by governments and development agencies at supporting the 'all-inclusive finance agenda' among the unbanked in recent times, are more likely to be voluntarily constrained or self-excluded in conformity with the PCT.*

### ***Negative Perception About Credit Use and Voluntarily Constrained MEs***

As mentioned earlier, according to some sociocultural norms and certain religious beliefs among many ethnic societies or religious groups in Ghana, borrowing or indebtedness is generally not acceptable. The knock on effect of these beliefs is voluntary self-exclusion in order to avoid either guilt, shame or the cost of default, which is perceived to be excessively high, both in social and economic terms. The idea of losing valuable family assets as well as social sanctions that one is likely to face in an event of default put pressure on such indigenous traders to be self-reliant by avoiding credit or debt (Aryeetey, 2004). Buttressing this point, Ofei (2004) observes that over the years certain beliefs and imagined problems about obtaining finance from formal banking system still prevail among most ethnic society across all the regions of Ghana. This, according to him, has served as a major constraint in accessing external finance. On the basis of this, we hypothesize that:

*H<sub>2</sub>: Microentrepreneurs who have strong religious or cultural beliefs or bias toward the use of credit or indebtedness in general are more likely to be voluntarily constrained.*

### ***Perception of Risk, Interest Rate Sensitivity and Voluntarily Constrained MEs***

It is often said that people who are self-confident and have high self-image are risk-takers and, although they have positive attitude, yet have realistic views of themselves and their surroundings. On the contrary, people with low self-confidence are not risk-takers as they fear

failure. In the Prospect theory in behavioral finance pioneered by Kahneman and Tversky (1979), such situation is referred to as loss aversion where “people have the tendency to strongly prefer avoiding losses to acquiring gains”. In the same vein, Wyer *et al.* (2007) observe that a microentrepreneur with low self-confidence or with ‘a discouraged borrower’s attitude’ would not want to take risk and may feel it is futile, given his background, approaching the banks for finance. Whilst concerns about risk are expected in most entrepreneurial transactions, the risks of failure, default or losing collateral assets among microentrepreneurs are much more profound and greater than those in mainstream formal sector (Glackin, 2002). Such risk-aversion is even likely to be compounded if an entrepreneur is highly sensitive to interest rates charges on loans. And in Ghana, where the financial institutions charge a wide range of high interest rates, the effect of interest sensitivity on self-exclusion could be as well profound. Considering the mainstream banks’ lending rates that currently average to 30% (sometimes higher for some microloans because of the risk often associated with the micro-borrowers) and the informal financial institutions, that are believed to charge even higher rates that range from 100% to 1200% p.a. (Afrane and Banibensu, 2002), understanding how MEs respond to interest rates is vital for the conclusion to be reached in this study. For this reason and for the fact that the majority of MEs often have low incomes or earn relatively low returns on their capital as against the prevailing high lending rates within the country’s credit market, we hypothesize that:

*H<sub>3</sub>: Microentrepreneurs who are highly interest-sensitive and lack confidence in their business making enough profit, are more likely to voluntarily exclude themselves from the credit market.*

#### ***Information Gap and Voluntarily Constrained MEs***

It is well-acknowledged within the information economics literature that information gap exists between supply and demand sides of credit within the financial market because of the high cost of its acquisition, particularly when it involves small borrowers. Ekumah and Essel (2003), providing evidence on the power of information in the credit market in rural Ghana, observe that the poor has little access to credit not only because of sociocultural barriers, but also because of the inadequacy of information regarding the services and facilities offered by the bank. In many instances, according to them, information relating to various credit schemes, and their associated formalities and obligations do not reach small producers, particularly when they are illiterates. This raises concern because if entrepreneurs do not know or make effort to inquire about microloan programs, they cannot borrow from them or make mistakes with their choice of appropriate financing. Thus, lack of information can be as problematic as inaccurate or incomplete information (Glackin, 2002). We thus hypothesize that:

*H<sub>4</sub>: In localities where information flow is inadequate and/or where microentrepreneur lacks the urge or ability to obtain basic information about the financial system or the availability of alternative microcredit schemes, such a person is more likely to be voluntarily self-excluded.*

## Sampling Procedure and Data Collection Technique

The data for this study were based on a field survey conducted in the Ashanti region of Ghana, between August and September, 2009. The choice of Ashanti region was appropriate in that besides being the most populous region in Ghana, its capital, Kumasi has one of the highest informal economic activities, second only to the capital, Accra (Aryeetey and Udry, 1997). Geographically, being on the middle belt of the country, the region's unique centrality makes it a traversing point for migrants and traders from all parts of the country. The region also displays additional character of modernity and traditional values, the extreme poor and the wealthy, the highly educated and the illiterates as well as a large representation of both informal and formal financial institutions. Applying a simple random sampling technique, the survey design was based on the following three strata: sector of activity, geographical location and enterprise size. The stratification by sector activity first divides the enterprise population into three strata—services, manufacturing (including construction), and primary-related activities. This was further divided into 10 substrata, which comprises the following: food processing, clothes/shoes, metal fabrication and repairs, wood processing, handicraft, construction, garages, other services like hairdressing, etc., trade and restaurants, and transport. All put together, there were 60 different kinds of activities found in the microenterprise sector. We randomly selected at least two activities from each substrata with the number rising with the subsectors that have a greater number of activities under it.

On the basis of geographical distribution, three socioeconomically important locations were stratified, namely, the Central Business District (hereafter referred to as CBD), suburb (or suburban) and rural location. This stratification was done to reflect the level of economic activities, the concentration of enterprises and credit providers, as well as income variations. While high concentrations of various kinds of MEs and financial institutions were noticed within the CBD (i.e., the entire downtown area of the city of Kumasi), in the suburbs (i.e., areas in and around the city other than the CBD) and the rural locations, the reverse was the case. The sparse distribution of enterprises in the latter two areas not only implies slow business activities, but also makes it very unattractive for financial institutions to reach-out with their services. This therefore highlights the issue of increase in transaction costs as a result of long distance travels to a nearby bank, and this has the potential of discouraging the majority from demanding financial services. Furthermore, we randomly selected 10 rural areas that are a bit farther from the city across the length and breadth of the region. Interviewers were assigned to each of these villages.

With regard to the size of enterprise to be selected, we did not have any specific definition since the literature on what constitutes a microenterprise is not straightforward. Definitions by size vary greatly and are sometimes 'arbitrarily' gauged, whether defined in terms of capital, turnover, fixed assets or the number of employees. It may also depend upon the country or the level of socioeconomic and industrial development of the country. For example, while in the US, the capital threshold for enterprise described as micro is US\$10,000, in Ghana it is about US\$1,000 or less (Ghana Statistical Service Report, 2008). However, for simplicity and for purpose of access to finance, we restricted the definition to the band of all non-farm household enterprises employing 10 or less people (Selvavinayagam, 1995). Even

though we allowed for a few enterprises that engage more than 10 people, but share similar characteristics with those in our definition, we deleted as outliers any enterprise which employs more than 14 people.

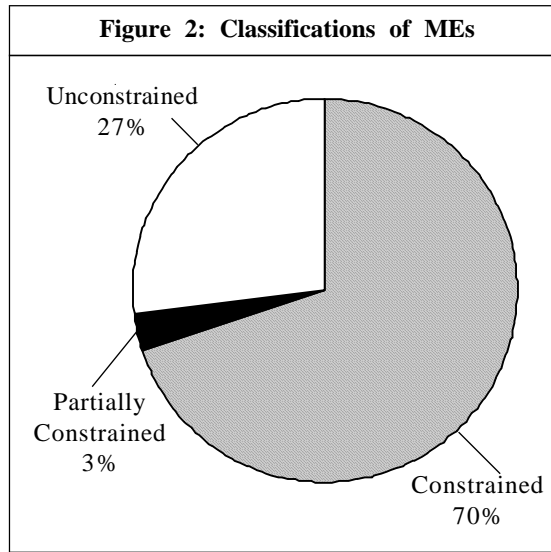
Besides the various definitions, the literature also highlights a myriad of problems or constraints that characterize microenterprise activities. In Ghana, problems relating to the sector, as cataloged by Mensah (2004) are as follows: “domination by one person, with the owner/manager taking all major decisions; limited formal education; access to and use of new technologies; market information and access to credit from the banking sector is severely limited; management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth; they often experience extreme working capital volatility; lack technical know-how and inability to acquire skills and modern technology impede growth opportunities”. Moreover, although MEs in Ghana are legally not required to register under government’s company registration acts, they are supposed to register with the local or district assemblies. Yet, the majority does not comply, but rather operates in unregulated, disorganized but competitive markets characterized by free entry and exit. They often operate from small shops, wooden kiosks often spread across the major streets, hawk with their wares, and occupy lands or properties, which either belong to the government or do not have property rights (Barclays, 2005).

To achieve the study objectives, we used structured questionnaires and obtained usable data on some 176 MEs ranging from owner’s socioeconomic characteristics, enterprises’ specific-level characteristics, financial performance, sources of start-up capital and constraints to perception of access to external finance difficulties and attitudes toward the use of credit. The other aspects of the questionnaire also surveyed information on cash flow problems, sources of working capital and desired type of future financing. The last category of questions dealt with reasons relating to why there is need for external finance; why entrepreneurs do not apply for loans despite complaints of financial constraints; why application of loans were refused or accepted as well as issues of interest rate sensitivity and financial literacy or awareness. The structure and the kind of questions were streamlined by series of seminar presentations and pretesting with some selected MEs. Most of the questions were either closed-ended binary or multiple choices with a few calibrated on a five-point Likert scale. A copy of the questionnaire has been attached as Appendix.

### **Which MEs are Voluntarily Constrained? Preliminary Results**

In arriving at which MEs are voluntarily, involuntarily or partially constrained or unconstrained, the survey first asked the microentrepreneurs to indicate whether their enterprise was critically in need of finance. The preliminary results show that majority (79%) actually responded in the affirmative. We further asked whether they had tried applying for credit in the last 12 months. However, only 3 out of 10 (31.8%) had actually applied for credit despite reporting of severe financial difficulties. Among the respondents who applied for credit, half (50%) were successful whereas the remaining half (representing 15.9% of the total respondents) were rejected. However, among the successful ones, approximately 18% did not receive the whole amount of the loan applied for. Asked why the majority (68.2%) of MEs

did not apply, the commonest reason was no need for credit (20%) because they had sufficient liquidity to run the business. On the contrary, the rest did not apply because they thought, among other things, that the interest rates being charged are too high, or they did not have the required collateral or did not expect to get the loan because of certain social reasons. Following the conceptual framework, we aggregated and classified these reasons into four categories and modeled the various kinds of constrained and unconstrained MEs. Figure 2 shows the broader constrained and unconstrained categories, whereas Table 1 presents the details of classifications.



**Table 1: Types of Constrained and Unconstrained MEs**

Microentrepreneurs	Classification	Percentage		
<b>Constrained:</b>				
Involuntary	Quantity Rationed	–	15.9	–
Voluntary (Self-Exclusion)	High Interest Rate	11.9	–	–
	Collateral	9.7	–	–
	Transaction Cost	10.8	–	–
	Sociocultural	22.2	54.6	70.5
<b>Partially Constrained</b>	Partially Successful (Loan Size Rationed)	–	–	2.8
<b>Unconstrained</b>	Fully Successful	–	13.1	–
	Sufficient Liquidity (No need)	–	13.6	26.7
<b>Total</b>		–	–	<b>100</b>

Figure 2 shows that slightly more than a quarter of all MEs (27%) were unconstrained. Out of this, 13.1% were successful with their loan applications and 13.6% had sufficient liquidity and therefore did not apply (Table 1). In a rather sharp contrast, 7 out of 10 MEs (70%) were fully constrained with 54.6% being voluntarily (i.e., self-excluded) and 15.9% involuntarily (i.e., quantity rationed or rejected). Close to 3% were partially constrained (or loan rationed).

To further examine the underlying factors for self-exclusion and to test the study hypotheses, we asked all respondents at various points to indicate: (1) Their perception about easiness or otherwise of access to finance due to the current flood of foreign banks and the keen competitions that have resulted in aggressive expansion in branch network to reaching

out to those in the informal economy; (2) what are their views about credit or borrowing and whether these views are based on their religious or cultural beliefs or otherwise; (3) if the current high interest rates should be cut by half or be reduced to the barest minimum and whether that will propel them to apply for loans again or for the first time; and (4) whether they are aware of the lending rates being charged by any of the institutions, or aware of any alternative government or donor agencies' credit scheme in their localities. The descriptive statistics of the explanatory variables are presented in Table 2.

<b>Variables</b>	<b>Descriptions</b>	<b>Voluntarily Constrained</b>	<b>All</b>	<b>Hypothesized Sign</b>
Number of Employees (Size)	The number of paid employees	(2.5)	(2.8)	-
Age of Enterprise	Age in years of enterprise	(7.9)		-
Educational Attainment	The number of years spent in school	(9.4)	(9.6)	-
Married	= 1; 0 otherwise	40.0	55.1	-
Gender	= 1, if female; 0, if male	31.6	31.3	-/+
Holds Bank Deposit Account	= 1; 0 otherwise	31.2	33.3	
Awareness	= 1; 0 otherwise	47.9	45.5	-
Keeps Records	= 1; 0 otherwise	28.7	42.0	-
Financial Knowledge	= 1; 0 otherwise	10.5	32.4	-
Negative Perception About Debt	= 1; 0 otherwise	58.9	40.9	+
Return on Assets	Ratio of Net Profit to Average Total Assets	(0.3)	(0.5)	-
Perception of Access Difficulties	= 1, 0 otherwise	68.4	54.0	+
Interest Sensitivity	= 1; 0 otherwise	60.4	63.3	+
Registered	= 1; 0 otherwise	29.8	41.5	
Rural Location	= 1, if located in the CBD	20.0	25	-
	= 2, if located in Suburb	33.7	38.6	
	= 3, if located in Rural Area	46.3	36.4	
Security	= 1, if ME household owns land or building	58.1	61.4	-
<b>Note:</b> All figures given are in percentages except those given in parentheses, which are mean.				

### **Empirical Analysis**

We begin the empirical analysis by arguing that when a microentrepreneur, though in need for credit, chooses not to borrow because of certain perceived constraints, it is simply a matter of choice. In economic terms, the decision to borrow is either based on maximizing or

satisfying one's utility, so we can expect a microentrepreneur to borrow if it not only satisfies his financing needs, but also maximizes his total utility (Glackin, 2002). It has been shown that the cost of borrowing is a constraint in the utility maximization model for credit demand (Vandell, 1984). Simplifying Vandell (1984) model of credit demand for 'honest' borrowers, we present the following utility function for the decision to borrow:

Maximize  $U[C_2]$

subject to:

$$C_2 = Y - LR \quad \dots(1)$$

where  $C_2$  is consumption (in this case utility from credit),  $Y$  represents income or revenue to be gained if loan is contracted and  $L$  is the loan size with  $R = 1 + r$  (where  $r$  is cost of borrowing). However, Herrnstein (1997) suggests that behavior is not only based on expected utility, but also on one's previous reinforcement experiences. Thus, in our case the expected utility that would be derived or maximized as credit demanded is ( $U[C_2]$ ), and it is constrained not only by the cost of borrowing ( $r$ ) or the interest cost (which is represented in our model by the degree of interest sensitivity), but also information cost (or gap), perceived difficulties (or the extent of trust in financial institutions) and cultural or religious bias (or the opportunity cost of being strongly adherent to a belief). We reformulate the above function as:

Maximize  $U[C^*]$

subject to:

$$C^* = E[Y] - E[LR] \quad \dots(2)$$

where  $C^*$  represents the expected utility from the credit demand,  $E[Y]$  is the expected income or gains,  $E[LR]$  is the expected wide-ranging costs as mentioned above likely to be paid if credit is demanded. Since the borrower is assumed to be rational, he will borrow only if the expected utility is positive or unchanged (i.e., where the expected gain or revenue exceeds or equals the perceived costs to be incurred) given as:

$$E[Y] \geq E[LR] \text{ (or } dU/dL = 0) \quad \dots(3)$$

Otherwise, all other things being equal, the entrepreneur will exclude himself voluntarily, if he perceives the expected costs to be greater than the expected gains (i.e.,  $E[Y] < E[LR]$ ). This notwithstanding the fact that some of these costs or constraints may have been largely described as a mere perception rather than a reality, since the decision to grant a loan is solely the prerogative of the lender.

However, since  $C^*$  is unobserved, Greene (2008) contends that Equation (2) is based on latent regression and it cannot be treated as an ordinary equation. But we can observe whether a microentrepreneur, who reports of being critically in need of finance, applied for credit or not. This gives us a binary choice model where logistic regression is appropriate. Logistic regression is expressed in terms of the odds ratio, which relates the probability of the event occurring to the probability of the event not occurring. Thus, we specify a simple binary response logistic model as:

$$C_{ij}^* = \beta x_{ij} + \varepsilon \quad \dots(4)$$

where  $C$  takes the value 1 if the ME is identified as voluntarily constrained and 0, otherwise and:

$$Y = \begin{cases} 1, & \text{if } Y^* > 0 \text{ (Voluntarily Constrained)} \\ 0, & \text{Otherwise} \end{cases} \quad \dots(5)$$

$X$  is a vector of explanatory variables, which comprises the key variables of interest described above to test the study hypotheses. It is also noteworthy that since there are no a priori hypotheses on how these variables affect the probability of being voluntarily constrained, we also explore the impact of enterprise's specific-level and owner's (or manager's) demographic characteristics such as age, educational attainment and gender of the owner, enterprise's assets, profitability, registration status, location, record keeping, etc., on the probability of voluntary self-exclusion. All these variables are described in Table 2 with their hypothesized signs. The variable  $\varepsilon$  represents the error term.

### Discussion of Estimated Results

The estimates presented in Table 3 show the results of logistic regression estimation of the determinants of voluntarily constrained microentrepreneurs. The model fitting information such as goodness of fit, the overall percentage correct and others show that the specification seems appropriate. The findings are generally consistent with the study hypotheses and the existing literature. We begin with the impact of microentrepreneurs' 'perception of access difficulties' on the probability of voluntary constrained. The coefficient on this variable is statistically significant with the expected positive sign. This suggests that microentrepreneurs who still perceive access to external finance to be difficult despite the current rapid expansion within the financial sector, are more likely to voluntarily exclude themselves. Consistent with PCT, it implies that microentrepreneurs tend to act in a similar fashion as their preconceived mind, or past experience and may mistrust or feel suspicious of financial institutions and doubt whether indeed access has been made any easier. The tendency therefore of such MEs is to cite excuses such as lacking collateral, high transaction cost or high interest rate, even though those might not necessarily represent the reality. This finding also complements the conclusion of Bendig *et al.* (2009), that households' demand for financial services in Ghana is largely influenced by households' risk assessment, past exposure to shocks and trust in the providing institution and its products.

As expected, the variable, 'negative perception of the use of debt' is statistically significant and positive in relation to voluntary constrained. This implies that microentrepreneurs with strong cultural or religious beliefs regarding the negative social effects of credit use or indebtedness are more likely to exclude themselves even when they need financial overhaul to sustain or expand their business. As noted by Clark (1994), among many indigenous people like Ashantis in Ghana or certain religious beliefs as in *Haram* (finance forbidden) in Islam, borrowing or indebtedness is socially not acceptable. The desire to stay out of guilt, shame, stigmatization, and loss of reputation appears to override any gains they might obtain by taking credit. Thus, they are compelled to be self-reliant or to be dependent on the benevolence of friends and relatives as the case may be.

Even though the 'education attainment' and the 'awareness' variables are not significant, the other variable that is a proxy for information gap, i.e., 'financial knowledge' is robustly

significant with the expected negative sign. This suggests that the higher the microentrepreneur's knowledge of working of the financial system or at least if he is aware of the interest rates in the market, the higher the probability that he will apply for external finance or less likely to be voluntarily constrained. This finding also supports the argument that financially illiterate microentrepreneur not only lacks confidence, but is also not in a position to appreciate the financial sophistication often involved in formal banking loan contracts and the positive connection between finance and firm value (Geburu, 2009). Surprisingly however, the coefficient on the 'interest sensitivity' variable has a negative sign and is significant, which is in contrast with the hypothesis. A plausible explanation might be that as many microentrepreneurs lack financial knowledge or at least any knowledge of the prevailing interest rates in the credit market, they are also less likely to be responsive to changes in the lending rates. On the other hand, it may also suggest that for such microentrepreneurs high interest rate does not matter as long as they can get easy and flexible

**Table 3: Logistic Regression of Determinants of Voluntarily Constrained MEs**

Variables	Estimate	Std. Error
No. of Employees (Size)	0.503	0.322
Age of Enterprise	-0.084	0.230
Awareness	0.357	0.467
Educational Attainment	0.327	0.206
Financial Knowledge	-1.905***	0.533
Gender	-0.556	0.512
Bank Deposit Account	-0.105	0.516
Keeps Records	-0.974**	0.485
Negative Perception of Debt	1.489**	0.500
Return on Assets	-0.506	0.344
Married	-1.315**	0.507
Perception of Access Difficulties	0.979**	0.496
Registered	-1.075**	0.514
Interest Sensitivity	-1.088**	0.527
Rural Location	1.530**	0.542
Security	0.163	0.510
Intercept	0.688	0.967
No. of Observations	-	176.000
Overall Percentage Correct	-	81.437
-2 Log Likelihood	-	132.576
Cox and Snell $R^2$	-	0.445

**Note:** \*\*\* and \*\* imply 1% and 5% significance levels respectively.

access to finance. These potential borrowers are probably more concerned about the barriers or constraints such as transaction cost, high collateral demands, or their own beliefs other than borrowing costs.

The results also suggest that MEs located within ‘rural localities’ are more likely to be voluntarily excluded compared to their counterparts in the suburb and CBD. The statistically significant and positive coefficient of this variable reflects the fact that microentrepreneurs living in deprived areas perceive themselves to be disadvantaged in obtaining bank finance because of the physical unavailability or considerable travel distance to nearby banks, which increases the transaction cost of borrowing. This finding also confirms Aryeetey’s (2004) description of rural financial system in Ghana: “Despite the fact that the various financing possibilities exist, there is relatively little credit activity that takes place in rural Ghana. Little borrowing is done in view of the fact that default can be a very costly thing for the borrower”.

Another variable that appears to explain self-exclusion is the ‘marital status’ of the owner/manager. The negative significant coefficient suggests that married owners are less likely to be voluntarily excluded. This is not surprising since current studies have shown that most microloans require a third-party guarantor or cosigner by the providers, which underscores the importance of social networks/social capital or strong family support or participation in business in attracting loans (Glackin, 2002; and Ambreen, 2009). However, the result on the gender variable is not significant suggesting that there is no major difference between females and their male counterparts as far as demand for external finance is concerned. This may signify a far cry from the previous situation where because of widespread disproportionate education and discrimination within certain cultural values against women, they were either marginalized or they lacked the confidence to borrow in comparison to men. It is not only the case that many women are even beginning to assert themselves, but there is also increasing evidence that financial institutions, based on the success story of the Grameen model which mostly involves women microentrepreneurs, are now lending more to women.

Finally, the two other variables that are both significant with expected negative signs are ‘record keeping’ and the ‘registration status’ variables. These suggest that the absence of proper financial management or informality and disorganized form of enterprises have negative effects on the probability of demanding external finance. This is true because enterprises in this situation may lack the reputation and confidence to approach a bank for a loan. According to a report (Business Development (BDS) Forum, 2008), the crucial aspects of loan appraisals or eligibility requirements by banks—financial records, demonstration of repayment capacity and securities—are considered to be more problematic with small enterprises than with larger ones, thus constraining the majority from accessing credits.

### **Challenges and Limitation**

The dearth of statistical data on the number of MEs in the informal economy was a major limitation that this survey encountered during the sampling process. Their class of activities, locations and the number of employees or apprentices engaged by them had not been documented. Apart from Ghana Statistical Service that has limited data on non-farm household enterprises, there is virtually no baseline data or records of enterprise registration

status, addresses, ownership structure, etc., in any of the government agencies. Therefore, we were compelled to adopt an accidental selection of enterprises without any prior information about them. Another constraint encountered was the high tendency of the microentrepreneurs to underreport their employee status, financial details and registration status. This was because many of them perceived the interviewers as either tax collectors or some agents who would use the information so obtained for purposes other than research, which may not be in favor of them or their businesses. Many were also of the opinion that time and again people have come to undertake research, but there is very little to show by way of benefits or improvements in their conditions. These protestations were more pronounced among those in the CBD who, for some of these reasons, were often very reluctant or hostile to our interviewers. In contrast, there was also the possibility of self-serving bias or microentrepreneurs overreporting. As argued by Wyer *et al.* (2007), owners/managers of enterprises often have an incentive not to recognize the problematic financial situation of the enterprise or exaggerate the problem of constraints in order to overcome their own act of failures. Lastly, due to time and logistical resource constraints our sample size was relatively small. Thus, care must be taken or one has to be cautious while interpreting or generalizing the results. Instead, the results should be seen as an indicator of emerging patterns and association between relevant variables, although most of our preliminary results are consistent with several other studies in this field. It is also, however, noteworthy that the survey was based on the assumption that the sample of MEs was a fair representation of the remaining microentrepreneurs in the country because of their homogeneous characteristics in cultural and socioeconomic status across the country.

## **Conclusion**

This paper presented an empirical investigation into the underlying sociocultural factors that drive the majority of microentrepreneurs away from seeking external finance even though their businesses are in dire need of financial support. Using a survey data from Ashanti region of Ghana, the study specifically examines the impact of such fundamental issues as perceived difficulties in accessing finance, beliefs, and interest rate sensitivity as well as information gap on the probability of voluntary self-exclusion. The study finds that perceived difficulties in accessing finance, negative cultural or religious bias on credit use and financial illiteracy are very important factors underlying voluntary self-exclusion. Whether these perceived difficulties are real or mere perception or the beliefs are unfounded or not, they evidently impede majority of MEs from stepping out of their shells to access external loan to sustain or develop their businesses. However, contrary to its expectation, the study finds voluntarily excluded microentrepreneur to be interest inelastic or insensitive to interest rate changes. This finding suggests that microentrepreneurs are probably more concerned about stringent collateral requirements, high transaction costs and other constraints that discourage them from borrowing other than the current high interest rates charged by the financial institutions in the country. The study further finds that significant proportion of the microentrepreneurs do not apply for loans because of lack of financial records or their informality or disorganized status, which tend to dampen their reputation and confidence levels.

In conclusion, the evidence provided thus far implies that policies directed at building all-inclusive finance by focusing on supply side alone are unlikely to be successful.

Complementary policies aimed at removing access constraints, and also target policies that tackle the fundamental issues of negative perception and mistrust of the financial institutions are also needed. Creating awareness through extensive financial literacy programs and social mobilization at the grassroots level will be a more holistic approach in solving the problem. Besides, innovations in religion-compliant financial institutions should be promoted to meet the financing needs of those who would otherwise exclude themselves because of religious beliefs. However, future research should focus on whether there is a perception gap or a 'critical mismatch' regarding access barriers to external finance from the perspectives of lenders and potential borrowers alike. Again, any future research should also seek to overcome the limitations of the field survey, especially by increasing the sample size, as that will support a more rigorous quantitative analysis to validate the results of this study and others within the development finance literature.❖

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## Appendix

<b>Microenterprise Finance Survey Questionnaire</b>									
<p>The purpose of this questionnaire is to assess microenterprises' access to credit and the economic and social institutions that underpin it. Information provided to this questionnaire is solely for academic purpose and the confidentiality of respondent and the enterprises identity shall duly be protected. Thank you for your cooperation</p>									
<p>A1.1 Over the past 12 months, has this enterprise operated in any non-agricultural enterprise which produces goods or services (for example, artisan, metalworking, tailoring, repair work, woodwork, transport activities, restaurant, food, water or beverage processing) or operated trading business in goods and services?</p>	<p>A1.2 What major activity does your enterprise engage in?</p> <p style="text-align: center;"><b>Probe to Determine Industrial Sector in Which the Enterprise Operates</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; padding: 2px;">Enterprise ID</th> <th style="width: 50%; padding: 2px;">Description</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;">1. Services</td> <td style="padding: 2px;"></td> </tr> <tr> <td style="padding: 2px;">2. Manufacturing</td> <td style="padding: 2px;"></td> </tr> <tr> <td style="padding: 2px;">3. Primary</td> <td style="padding: 2px;"></td> </tr> </tbody> </table>	Enterprise ID	Description	1. Services		2. Manufacturing		3. Primary	
Enterprise ID	Description								
1. Services									
2. Manufacturing									
3. Primary									
<p>1. Yes 2. No</p>	<p>A1.2 Is this enterprise registered with any of government agencies?</p> <p>1. Yes                      2. No</p>								
<p>A2 I would now like to ask you whether you are the owner of this enterprise.</p>	<p>1. Yes 2. No</p>								
<p>A3 For how long has the enterprise been in operation?</p>	<p>Years    <input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/></p> <p>Months   <input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/></p>								
<p>A4 What share of the profits is kept by this household, rather than the other owners? If your household owns the entire enterprise, answer with 100%.</p>	<p><input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/> Percent</p>								
<p>A5 During the past 12 months, for how many months was this enterprise in operation?</p>	<p><input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/> Months</p>								
<p>A6 During the past 12 months, how many people did this enterprise employ who are not members of this household?</p>	<p><input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/> <input style="width: 20px;" type="text"/> People</p>								

Appendix (Cont.)

A7	How many people are currently engaged in this enterprise? (Including household members)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> People
A8	On average, how much is the total revenue, receipts or sales before subtracting any expenditure you incurred in the process last week	GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> per week GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> per month
A9	After making purchases for the business is there usually any money left as income for your household for the purpose of consumption expenditure or saving?	1. Yes 2. No
A10	How much money is usually left as profit or income for the enterprise and your household?	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> per week/ <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> per month
A11	Do you and your household solely depend on this enterprise for your livelihood?	1. Yes 2. No
A12	I would now like to ask you questions about the assets (that is, equipment, buildings, vehicles, tools, etc.) that you use in your business. At present, does this enterprise own any of these [ITEM]? Choose as many as you own	1. Land 2. Buildings 3. Machinery 4. Furniture 5. Tools 6. Vehicle 7. Other durable goods 8. Inventory that may be used as collateral 9. <b>Do not have any asset</b>
A13	If you are to value or sell all the assets of your enterprise, how much will you price it?	GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
A14	Do you or your household own land or building to which you have property right?	1. Yes 2. No
<b>Now let me ask you questions about this enterprise finances</b>		
B1	What was the main difficulty you encountered for setting up this enterprise?	1. No difficulty/constraint. 2. Capital/ credit. 3. Technical know-how. 4. Government regulations and registration procedure. 5. Land, building or permanent place to settle the enterprise. 6. Other (specify).

Appendix (Cont.)

B2	How many sources of capital did you have for setting up this enterprise?	<input type="text"/>						
B3	What was the main source of capital for setting up this business?	<ol style="list-style-type: none"> <li>1. Self-finance (household saving).</li> <li>2. Formal bank credit.</li> <li>3. Non-bank specialized financial institutes, (e.g., loan companies, Credit Unions, etc.).</li> <li>4. Remittances from abroad.</li> <li>5. Friends and relatives in Ghana.</li> <li>6. Money Lenders.</li> <li>7. Rotating saving and credit (SUSU) or SHG schemes.</li> <li>8. NGOs support.</li> <li>9. Government support.</li> <li>10. Suppliers credit.</li> <li>11. Other (specify).</li> </ol>						
B4	What was the nature of this finance?	<ol style="list-style-type: none"> <li>1. Self-finance</li> <li>2. Loan</li> <li>3. Gift</li> </ol>						
B5	Presently, is your business financially/credit constrained and is it in need of external finance/credit?	<ol style="list-style-type: none"> <li>1. Yes → B5</li> <li>2. No*</li> </ol>						
B6	For what purpose do you need the credit. (Specify three most important purpose and rank in terms of importance)	<ol style="list-style-type: none"> <li>1. To buy fixed capital equipment, e.g., tools, machinery, for business expansion, etc.</li> <li>2. To buy own and permanent land, building, shop or store.</li> <li>3. Acquire transport facilities, fixtures and furniture.</li> <li>4. Repair enterprise equipments.</li> <li>5. Buy raw-materials/inventories or suppliers/clear stuff at the port.</li> <li>6. Working capital or other operating expenses.</li> <li>7. Emergency need in order to rescue enterprise from collapsing.</li> <li>8. To support cost of living or a household member needs.</li> <li>9. Pay for past debt.</li> </ol> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>1<sup>st</sup></td> <td>2<sup>nd</sup></td> <td>3<sup>rd</sup></td> </tr> <tr> <td><input type="text"/></td> <td><input type="text"/></td> <td><input type="text"/></td> </tr> </table> <p>10. Other (specify).</p>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	<input type="text"/>	<input type="text"/>	<input type="text"/>
1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>						
<input type="text"/>	<input type="text"/>	<input type="text"/>						
B7	Have you tried to apply for credit in the last 12 months?	<ol style="list-style-type: none"> <li>1. Yes, Successful → B10</li> <li>2. Yes, Unsuccessful → B8</li> <li>3. No → B7, B9</li> </ol>						

Appendix (Cont.)

B8	What is the main reason why you did not apply for credit in the past 12 months? Skip to B9	<ol style="list-style-type: none"> <li>1. No need for credit, have enough money.</li> <li>2. Interest rate charge too high.</li> <li>3. Do not have the required collateral.</li> <li>4. Loan terms and repayment schedule not suitable for my business (e.g., too long/short).</li> <li>5. Do not think I or my business qualifies to get a bank loan.</li> <li>6. I don't want to be indebted for cultural, religious or ethnic reasons.</li> <li>7. The location of bank, time and cost spent in securing a loan are too much to bear.</li> <li>8. I do not understand the workings of loan contracts, conditions and paper works involved.</li> <li>9. Have too many debts already.</li> <li>10. I don't know where to go.</li> <li>11. Other (specify).</li> </ol>						
B9	What is the main reason why you were refused a loan?	<ol style="list-style-type: none"> <li>1. Inability to provide collateral.</li> <li>2. Lack of viable project/business plan/proper accounting records.</li> <li>3. Bad/no credit history.</li> <li>4. No account held with bank/no relationship with the organization.</li> <li>5. Lack of formal paperwork (e.g., identity, documents, proof of permanent address or certificate of registration, etc.).</li> <li>6. No cosigner or third person guarantor (group or individual).</li> <li>7. No personal relationship with the banker or the lender.</li> <li>8. No reason given.</li> <li>9. Other (Specify).</li> </ol>						
B10	How do you solve working capital or cash flow problems (skip to C1)	<ol style="list-style-type: none"> <li>1. Use retained profit.</li> <li>2. Personal savings from other business.</li> <li>3. Sell family property.</li> <li>4. Remittances from abroad.</li> <li>5. Use suppliers credit instead.</li> <li>6. Rely on donors and philanthropists.</li> <li>7. Do nothing about it.</li> <li>8. Others (specify).</li> </ol> <table border="1" data-bbox="1105 1461 1295 1524"> <tr> <td style="text-align: center;">1<sup>st</sup></td> <td style="text-align: center;">2<sup>nd</sup></td> <td style="text-align: center;">3<sup>rd</sup></td> </tr> <tr> <td> </td> <td> </td> <td> </td> </tr> </table>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>			
1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>						
B11	In your opinion, what was the one major reason why you were successful with your loan application?	<p>Because:</p> <ol style="list-style-type: none"> <li>1. Provided collateral as security for the loan.</li> <li>2. Presented viable business plan/or my business is very profitable.</li> <li>3. A long time customer of the bank or good credit history.</li> <li>4. Had a guarantor or politician who was very influential.</li> </ol>						

Appendix (Cont.)

		<ol style="list-style-type: none"> <li>5. Good relationship and connections with the manager and some staff.</li> <li>6. Offered convincing reason to pay the prevailing market interest rates.</li> <li>7. My religious, ethnic, political and social status or affiliations*.</li> <li>8. Operate active saving accounts.</li> <li>9. Belongs to a particular credit association, cooperative or union.</li> <li>10. Other (Specify).</li> <li>11. Don't know.</li> </ol>
B12	What security were required by the [...] for this loan?	<ol style="list-style-type: none"> <li>1. Cosigner or guarantor (group, SHG or individual).</li> <li>2. Fixed assets for collateral such as land and building.</li> <li>3. Other assets for collateral (such as livestock, jewelry, plantation, vehicle/motorbike, etc.).</li> <li>4. Minimum balance requirement in bank savings (or other) account.</li> <li>5. Repayment through automatic salary deductions or proceeds from sales.</li> <li>6. Whole enterprise's assets.</li> <li>7. Other (Specify).</li> </ol>
B13	Now tell me about the main source of this loan.	<ol style="list-style-type: none"> <li>1. Formal bank credit</li> <li>2. Non-bank specialized financial institutes, (e.g., loan companies, credit unions, etc.)</li> <li>3. Friends and relatives.</li> <li>4. Money Lenders.</li> <li>5. Rotating saving and credit (SUSU) schemes or SHG.</li> <li>6. NGOs (specialized MFIs) support.</li> <li>7. Government support.</li> <li>8. Suppliers credit.</li> <li>9. Other (specify).</li> </ol>
B14	Why did you choose to borrow from this source?	<ol style="list-style-type: none"> <li>1. Offered easy and flexible repayment scheme.</li> <li>2. Does not require collateral.</li> <li>3. Close and convenient to reach.</li> <li>4. Offer technical and training assistance.</li> <li>5. Interest rate is low or subsidized.</li> <li>6. Personal relationship.</li> <li>7. A customer of the bank or member of a group (ROSCA, credit union, cooperative).</li> </ol>

Appendix (Cont.)

		8. Other (specify). 9. No reason.
B15	Do you know the interest rate you are paying on this loan?	1. Yes 2. No 3. Not applicable
B16	If yes, how much it is?	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> %
B17	What was the term period of the loan?	1. One Week 2. One Month 3. Three Months 4. Six Months 5. One Year 6. Three Years 7. More than three 8. Other (specify)
B18	How much did you borrow? If you do not know the exact figure, please estimate.	GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
B19	Did you receive all the money you requested for?	1. Yes 2. No
B20	If no, how much did you request?	GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
B21	How much has been repaid so far?	GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
B22	*How much do you pay monthly?	GHC <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
B23	All in all I received positive attitude, technical assistance and all-embracing information on all terms and conditions	1. Strongly agree 2. Agree 3. Neutral 4. Disagree 5. Strongly disagree
C1	Apart from the reason for which you borrowed the money, did you apply the loan in any other venture that was not specified in the loan contract? (Including start-up loans)	1. Yes 2. No
C2	Including this loan, is your enterprise in arrears or default in paying any debt you hold?	1. Yes → C3-C5 (delinquent/areas) 2. No (current) 3. Not applicable
C3	How far more have you exceeded the repayment	Years <input type="text"/> <input type="text"/> Months <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> ; <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> Weeks

Appendix (Cont.)

C4	Date? If yes. What is the main reason why you are not paying?	<ol style="list-style-type: none"> <li>1. Business not good/not making enough profit of the current economic condition.</li> <li>2. Interest rates too high.</li> <li>3. Terms of repayment not flexible enough.</li> <li>4. Money borrowed locked up in some other business.</li> <li>5. Not much pressure has been put on me by the lender.</li> <li>6. I thought it was a grant or a donation not needing repayment.</li> <li>7. I guaranteed with collateral.</li> </ol>						
C5	Has the lender resorted to any of the following to recover the loan?	<ol style="list-style-type: none"> <li>1. Used a traditional arbitrator or local chiefs to impose sanctions.</li> <li>2. Used the forces of law or take you to court.</li> <li>3. Sell of collateral.</li> <li>4. Write off the debt.</li> <li>5. Dispute still pending.</li> <li>6. Name published in the print media.</li> <li>7. Refinance the project/business.</li> <li>8. Used other method (please specify).</li> </ol>						
C6	What is your view about borrowing or being indebted?	<ol style="list-style-type: none"> <li>1. It shameful, (society will look down upon you, sign of failure, etc.).</li> <li>2. It's necessary for growth of business.</li> <li>3. It's not good because of cultural or religious reason.</li> <li>4. Other (specify).</li> </ol>						
C7	Compared to the past, do you think having loan or credit line has improved your enterprise productivity or growth (sales/receipt) and profitability?	<ol style="list-style-type: none"> <li>1. Yes, improved → C8</li> <li>2. No improvement</li> <li>3. Declined</li> <li>4. Not applicable</li> </ol>						
C8	<p>How has this loan helped you to increase the enterprises productivity or sales?</p> <p>(Please outline three main reasons here → ranking in terms of importance)</p>	<ol style="list-style-type: none"> <li>1. Through technical support from the banks/source.</li> <li>2. Through entrepreneurial and financial management training received from the source.</li> <li>3. Through constant monitoring and advice by bank officials.</li> <li>4. Through provision of modern logistic or ability to buy good raw materials or logistics/machines for production.</li> <li>5. Through increased efforts and increased working hours in order to repay loan.</li> </ol> <table border="1" data-bbox="943 1661 1154 1717"> <tr> <td>1<sup>st</sup></td> <td>2<sup>nd</sup></td> <td>3<sup>rd</sup></td> </tr> <tr> <td></td> <td></td> <td></td> </tr> </table> <ol style="list-style-type: none"> <li>6. Other (please specify).</li> </ol>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>			
1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>						

### Appendix (Cont.)

C9	Have your and your household's living condition changed in any way with getting credit?	<ol style="list-style-type: none"> <li>1. Yes → C10</li> <li>2. No</li> <li>3. Not Applicable</li> </ol>
C10	How? Specify one or more major areas it has affected you,  Write here →	<ol style="list-style-type: none"> <li>1.</li> <li>2.</li> <li>3.</li> </ol>
C11	What kind of loan terms does your enterprise need for growth/survival in the future? (Ask the following questions to all).	<ol style="list-style-type: none"> <li>1. Long-term loan for fixed capital expansion.</li> <li>2. Short-term loan to solve cash flow or working capital problem.</li> <li>3. Overdraft facilities that is readily available for immediate needs.</li> <li>4. Easy and faster access loans with flexible repayment scheme.</li> <li>5. Suppliers credit, hire purchases or lease.</li> <li>6. Indifferent.</li> <li>7. Not applicable.</li> <li>8. Other (specify).</li> </ol>
C12	Which of the following lenders do you think is more likely to meet your need and can help in the growth of your enterprise?	<ol style="list-style-type: none"> <li>1. Formal bank credit.</li> <li>2. Non-bank specialized financial institutes (e.g., loan companies, credit unions etc.).</li> <li>3. Friends and relatives .</li> <li>4. Money lenders, rotating saving and credit (SUSU) schemes.</li> <li>5. NGOs (specialized MFIs) support.</li> <li>6. Government support.</li> <li>7. Suppliers credit.</li> <li>8. Other (specify).</li> </ol>
C13	Do you think the current increase in number and competition in the banking industry has made it easier for enterprises like yours to get access to bank credit?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No</li> <li>3. I don't know</li> </ol>
C14	Has the current macroeconomic environment and the global financial crisis affected your business in applying for or accessing a bank loan?	<ol style="list-style-type: none"> <li>1. Yes</li> <li>2. No</li> </ol>
C15	Do you have plan of applying to any of the banks for loan in the near future?	<ol style="list-style-type: none"> <li>3. Yes</li> <li>4. No</li> </ol>
	If you have the chance to borrow again or for the first time, which of the following source will you choose?	<ol style="list-style-type: none"> <li>1. Formal commercial banks</li> <li>2. Informal financial services (SUSU, money lender, friends and relatives)</li> </ol>

Appendix (Cont.)

C16	Can you state one reason why you would make this choice?	Write here
<b>Interest Rate Sensitivity and Financial Literacy</b>		
D1	Do you know the current average lending interest rate for any of the lenders?	1. Yes 2. No
D2	If yes, Please tell us the prevailing average interest rate for....	1. Formal bank credit <input type="checkbox"/> <input type="checkbox"/> 2. Non-bank specialized financial institutes (e.g., Loan companies, Credit Unions, etc.) <input type="checkbox"/> <input type="checkbox"/> 3. Friends and relatives <input type="checkbox"/> <input type="checkbox"/> 4. Money lenders, rotating saving and credit (SUSU) schemes <input type="checkbox"/> <input type="checkbox"/> 5. NGOs (specialized MFIs) support <input type="checkbox"/> <input type="checkbox"/> 6. Government support <input type="checkbox"/> <input type="checkbox"/> 7. Suppliers credit <input type="checkbox"/> <input type="checkbox"/> 8. Other (specify) <input type="checkbox"/> <input type="checkbox"/>
D3	Do you think the current lending rates are too expensive for your business?	1. Yes 2. No
D4	If this interest rate should be cut by say half (50%) will it push you to apply for a bank loan?	3. Yes 4. No
D5	What level of interest do you think your business can afford?	1. <input type="checkbox"/> <input type="checkbox"/> % 2. Not sure
D6	For me, high interest rate doesn't matter so long as I get faster access and the loan repayment scheme is flexible enough.	1. Strongly agree 2. Agree 3. Neutral 4. Disagree 5. Strongly disagree
D7	Are you aware of any government support scheme like MASLOC, Rural Enterprise Development Schemes, etc.?	1. Yes 2. No

Appendix (Cont.)

D8	If you make profit, do you save part for the income?	1. Yes 2. No	
D9	What is the method of saving?	1. Commercial banks. 2. SUSU or savings groups. 3. Purchase of property—land, building, enterprise assets, etc. 4. Keep the money at home. 5. Other (specify).	
D10	Does your enterprise have a bank account?	1. Yes → D10 2. No → D11	
D11	Do you have a personal bank deposit account different from the enterprises.	1. Yes 2. No	
D12	If Yes; What are the three main reasons you have a bank account? Please list them in order of importance.	1. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 2. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 3. <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
	<p><b>(Do Not Prompt)</b></p> <p>1. Security reasons. Keep money safe.</p> <p>2. Gain access to other financial services (e.g., writing cheques, sending or receiving payments, etc.).</p> <p>3. Earn interest/return on saving.</p> <p>4. Save money for a specific purchase (e.g., car, land, building, livestock, etc.).</p>	<p>5. To be able to borrow money.</p> <p>6. For predicted future needs (education of children, retirement, etc.).</p> <p>7. For emergency needs (death, accident).</p> <p>8. Pay bills or debts using cheque book or card.</p>	<p>9. Transfer money or receive remittance.</p> <p>10. Capital investment for enterprise development.</p> <p>11. Prevent friends/relatives from asking for it.</p> <p>12. To pay for a trip abroad.</p> <p>13. Other (specify).</p>
D13	If No; What are the three main reasons you don't have a bank account? Please list them in order of importance.	1. <input type="checkbox"/> <input type="checkbox"/> 2. <input type="checkbox"/> <input type="checkbox"/> 3. <input type="checkbox"/> <input type="checkbox"/>	
	<p>1. Income too low.</p> <p>2. Business not making enough money.</p> <p>3. Bank fees/minimum deposit requirement too high.</p> <p>4. Bank location is not convenient.</p> <p>5. Financial products were not suitable.</p> <p>6. Interest rate offered on bank account was too low.</p>	<p>7. Did not see the benefit of having a bank account.</p> <p>8. Bank staff were rude or unhelpful.</p>	<p>9. Prefer alternative saving opportunities (saving club, village credit union, SUSU, etc.)</p> <p>10. For cultural or religious reasons.</p>

Appendix (Cont.)

			11. Do not have the documentation required (prove of address or rent agreement, etc.). 12. Other specify.
E1	Do you do bookkeeping or accounting records of your enterprise?	1. Yes 2. No	
E2	Have you ever received any entrepreneurial training in the past?	1. Yes 2. No	
E3	Have you insured your enterprise against fire or any kind of damages?	1. Yes 2. No	
E4	Have you ever had formal education?	1. Yes 2. No	
E5	What's the highest level of education completed?		
E6	Are you the economic head of your family?	1. Yes 2. No	
E7	Gender	1. Female 2. Male	
E8	Age	3.	
E9	Are you married	1. Yes 2. No	
E10	What is the size of your family?	<input type="text"/> <input type="text"/>	
E11	What's your ethnic background?		
E12	Location of enterprise	1. Central Business District 2. Urban 3. Rural	
E13	Which religious group do you belong to	1. Christian 2. Islam 3. Traditional 4. None	
E14	Do you think your social background (educ. religion, ethnic, etc.) has anything to do with your use/non-use of formal financial services.	1. Yes 2. No	

Thank You

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